



# Hawaiian Electric Industries, Inc. (HE)

Updated February 14<sup>th</sup>, 2023, by Nikolaos Sismanis

## Hawaiian Electric Industries (HE)

<b>Current Price:</b>	\$42	<b>5 Year CAGR Estimate:</b>	7.5%	<b>Market Cap:</b>	\$4.6 B
<b>Fair Value Price:</b>	\$41	<b>5 Year Growth Estimate:</b>	4.7%	<b>Ex-Dividend Date:</b>	02/22/23
<b>% Fair Value:</b>	101%	<b>5 Year Valuation Multiple Estimate:</b>	-0.3%	<b>Dividend Payment Date:</b>	03/10/23
<b>Dividend Yield:</b>	3.4%	<b>5 Year Price Target</b>	\$52	<b>Years Of Dividend Growth:</b>	5
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## Overview & Current Events

Hawaiian Electric Industries (HE) is a \$4.6 billion holding company with three segments: electrical utilities, banking, and non-regulated clean energy investments. The utilities segment, which serves 95% of the state, brought in 91% of its 2022 revenue. Its rates are governed by a regulator, but the inputs to its electricity are not. Therefore, inflation, and especially higher fuel costs, are critical. Watch, too, for the effects of higher interest rates since HE, like other large utilities, carries a heavy, long-term debt load.

On February 13<sup>th</sup>, 2023, Hawaiian Electric increased its dividend by 2.9% to a quarterly rate of \$0.36.

The next day, the Honolulu-based company reported its Q4-2022 and full-year results for the period ending December 31<sup>st</sup>, 2022. Earnings-per-share rose by two cents to \$0.52, as a result of lower net income in the company's electric segment, due to a \$6 million higher annual revenue adjustment and a \$1 million higher allowance for funds used during construction, partially offset by higher depreciation, higher interest expense, and higher fuel costs.

More specifically, Electric utility revenues and operating income grew by 33.3% and 11.5% to \$849.6 million and \$75.4 million, respectively. The bank segment saw strong loan growth during the quarter, and credit quality is trending favorably. However, its operating income declined by 19.7% to \$22.5 million as a result of elevated earnings due to COVID-19-related reserves last year.

Hawaii's GDP is expected to grow by 1.7% during 2023. Our initial EPS estimate for FY2023 stands at \$2.30.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$1.62	\$1.63	\$1.50	\$2.29	\$1.52	\$1.85	\$1.99	\$1.81	\$2.25	\$2.20	<b>\$2.30</b>	<b>\$2.89</b>
<b>DPS</b>	\$1.24	\$1.24	\$1.24	\$1.24	\$1.24	\$1.24	\$1.28	\$1.32	\$1.36	\$1.40	<b>\$1.44</b>	<b>\$1.81</b>
<b>Shares<sup>1</sup></b>	100	103	107	108	109	109	109	109	110	110	<b>110</b>	<b>110</b>

EPS growth of Hawaiian Electric is expected to be about 5% per year through 2024, while American Savings Banks is expected to produce low single-digit earning asset growth in the medium-term. Management has said it expects that dividends would grow in line with earnings. The most recent dividend increase of 2.9% is close to the company's past-decade EPS growth average.

To support its growth, the utilities plan capital expenditures of roughly \$2 billion over the next five years. Funds for Capex are expected to come from retained earnings and debt. Part of that will finance new rooftop solar panels and their installation, some of which will then feedback into the firm's grid. Twenty-one percent of residential customers had rooftop solar while 37% of single-family homes on Oahu had panels at the end of 2021. By developing this new source of power, the company reduces the use and cost of fossil fuels (that must be shipped in from the mainland).

The banking subsidiary, American Savings Bank, saw its net income decline last year. However this was mainly due to higher provision for credit losses last year. Rising interest rates should benefit its net interest margins over time. We expect EPS and DPS growth of 4.7% through 2028.

<sup>1</sup> In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.1	20.5	19.3	14.4	23.8	19.8	23.6	19.6	18.4	18.2	<b>18.3</b>	<b>18.0</b>
Avg. Yld.	4.7%	5.1%	4.1%	4.1%	3.8%	3.5%	3.4%	3.6%	3.4%	3.5%	<b>3.4%</b>	<b>3.5%</b>

Shares of Hawaiian Electric are currently trading at a P/E of 18.3. We maintain our fair multiple at 18x earnings, which implies that the stock is more or less fairly valued. Subtle valuation headwinds are possible. The dividend yield sits at 3.4%, near its 5-year average. Dividend per share growth was slow in the past; the company started with a quarterly payment of \$0.225 in 1987 and since then has grown to \$0.36. That's just \$0.135 per share over 36 years. However, the dividend has never been cut, and the company has increased the payment for five consecutive years now.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	77%	76%	83%	54%	82%	67%	64%	73%	60%	64%	<b>63%</b>	<b>63%</b>

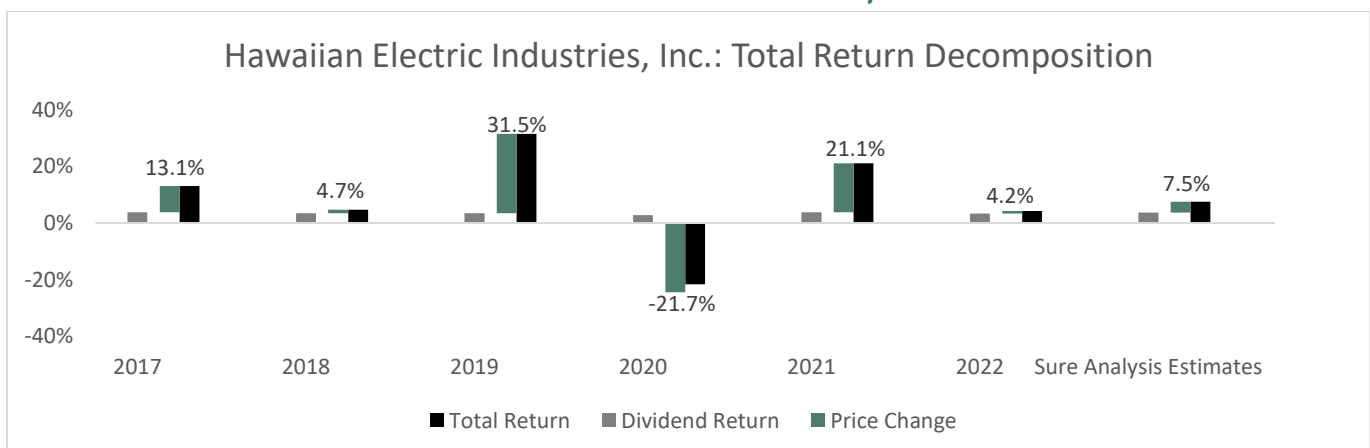
As a utility with a strong balance sheet, a near-monopoly on Hawaii's power, and addressing the threat of future power sources, Hawaiian Electric's dividend should be safe. Even when it and the state economy suffered from COVID-19, it was still able to increase the dividend. From a quality perspective, the utilities and banking segments are well-capitalized and generate enough cash flow to both pay dividends and reinvest in future growth.

The apparent competitive advantage for the utilities segment is that it is in a regulated space and faces little risk that another large company might challenge it. The banking segment, on the other hand, operates in a highly competitive market. The banking segment develops and introduces new products and services to consumers and commercial customers to maintain its competitive edge. As noted, the company went through the economic setbacks of 2020 largely unscathed, indicating it was able to remain resilient through that recession. With the bulk of its business in a near-monopoly, it enjoys financial protection available to few other dividend-paying companies.

## Final Thoughts & Recommendation

We expect an annual total return of 7.5% per year over the next five years, stemming from a 3.4% starting yield, 4.7% growth, and the possibility of a small valuation headwind. These estimates could be higher if Hawaiian Electric continues to aggressively trim utility costs, or they could be lower if inflation pressures its costs even more. Investors searching for consistent and reliable income will want to keep Hawaiian Electric Industries on their list of candidates. Still, dividend growth expectations should remain humble. Shares earn a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	3,375	3,238	3,240	2,603	2,381	2,556	2,861	2,874	2,580	2,850
<b>Gross Profit</b>	284	318	333	323	356	346	333	348	311	386
<b>Gross Margin</b>	8.4%	9.8%	10.3%	12.4%	14.9%	13.5%	11.7%	12.1%	12.1%	13.5%
<b>D&amp;A Exp.</b>	158	167	183	196	205	222	256	278	291	279
<b>Operating Profit</b>	284	318	333	323	356	346	333	348	311	386
<b>Op. Margin</b>	8.4%	9.8%	10.3%	12.4%	14.9%	13.5%	11.7%	12.1%	12.1%	13.5%
<b>Net Profit</b>	141	164	170	162	250	167	204	220	200	248
<b>Net Margin</b>	4.2%	5.1%	5.2%	6.2%	10.5%	6.5%	7.1%	7.6%	7.7%	8.7%
<b>Free Cash Flow</b>	(92)	(28)	(39)	(7)	166	(10)	(7)	55	46	61
<b>Income Tax</b>	77	86	96	93	124	109	51	52	41	63

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	10,149	10,340	11,185	11,782	12,426	12,534	13,104	13,745	15,004	15,823
<b>Cash &amp; Equivalents</b>	220	220	176	300	278	262	169	197	341	306
<b>Acc. Receivable</b>	363	347	314	243	238	263	326	301	281	344
<b>Goodwill &amp; Int.</b>	82	82	82	82	82	82	82	82	82	82
<b>Total Liabilities</b>	8,555	8,613	9,395	9,854	10,359	10,437	10,942	11,465	12,667	13,432
<b>Accounts Payable</b>	212	212	186	139	143	194	215	221	182	206
<b>Long-Term Debt</b>	1,702	1,843	1,916	2,010	1,812	1,993	2,064	2,265	2,338	2,464
<b>Total Equity</b>	1,594	1,727	1,791	1,928	2,067	2,097	2,162	2,280	2,338	2,391
<b>LTD/E Ratio</b>	1.07	1.07	1.07	1.04	0.88	0.95	0.95	0.99	1.00	1.03

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	1.4%	1.6%	1.6%	1.4%	2.1%	1.3%	1.6%	1.6%	1.4%	1.6%
<b>Return on Equity</b>	9.0%	9.9%	9.7%	8.7%	12.5%	8.0%	9.6%	9.9%	8.6%	10.5%
<b>ROIC</b>	4.3%	4.8%	4.7%	4.2%	6.4%	4.2%	4.9%	5.0%	4.3%	5.2%
<b>Shares Out.</b>	97	100	103	107	108	109	109	109	109	110
<b>Revenue/Share</b>	34.67	32.51	31.47	24.39	21.98	23.46	26.21	26.27	23.59	26.01
<b>FCF/Share</b>	(0.94)	(0.28)	(0.38)	(0.07)	1.53	(0.09)	(0.07)	0.50	0.42	0.56

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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